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FOR OFFICE OF INVESTMENT AFFAIRS - EB/IFD/OIA, TREASURY, COMMERCE,
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SUBJECT: LUXEMBOURG INVESTMENT CLIMATE STATEMENT 2009

REF: STATE 123907

¶1. The following is Luxembourg's submission for the 2009 Investment Climate Statement:

¶A. Openness to Foreign Investment

The Grand-Duchy of Luxembourg offers a very favorable and welcoming attitude toward Foreign Direct Investment (FDI). FDI reflects how willing foreign entities are to invest in a given country. Successive Luxembourg governments have effectively attracted new investment in medium, light and high-tech industries, as well as services, through the use of incentives, including deferred corporate tax payment schedules, capital investment subsidies and financing of equipment and start-up entities through the state lending agency, SNCI. Despite the current global economic crisis, Luxembourg remains the most attractive location for business investment in Europe - along with Switzerland - with the advantage of being a member of the European Union (EU).

The key points of climate attractiveness for FDI in Luxembourg are:

Economic and political stability - even in the midst of the financial crisis, Luxembourg maintains fiscal stability and relative strength in productivity and growth as compared to other EU countries.

Openness and accessibility of government officials and decision-makers; coordination of vision by government leaders for the country's future development.

Improved fiscal conditions through tax reforms enacted in 2008:

- Lower official basic corporate tax rate (now 21%)
- Abolition of capital duty tax
- Introduction of super-reduced tax rate (6%) on

Intellectual Property (IP) revenue (of particular interest to scientific/research projects)

Presence of "critical mass" of U.S.-origin companies in diverse sectors (industry; e-commerce/IT; financial/investment services), facilitating due diligence and cooperation on common issues.

Leading new sectors of investment opportunity

¶1. Biotechnology / Health Technologies

In spring 2008, Luxembourg announced a major investment initiative in biomedical research in collaboration with cutting-edge U.S. biotech firms (TGen) and research institutions (Institute for Systems Biology - ISB). The government has committed EUR 140 million over the next five years to develop a center of expertise in the area of molecular medicine. Unique opportunities have thus been created for foreign private investment in technological excellence and scientific research toward preventive medicine.
This project is open and attractive to highly-skilled workers of all nationalities and serves as a strong export platform for

incorporating U.S. products and services.

Part of this project is to be located with the expanded University of Luxembourg at the new campus in Esch/Belval, a redeveloped industrial area south of the capital city. This new center of excellence for academia, research and technology offers diverse opportunities for investment and partnership.

¶1. E-Commerce

The European Union (EU) directive on services provided electronically attracted a number of non-EU companies to establish European headquarters in Luxembourg thanks to its low VAT (sales tax) rate (lowest in Europe at 15 percent rate as opposed to Ireland's 21 percent or Germany's 19 percent). Services offered by a company registered outside the EU are subject to the VAT levy of the customer's country of residence, whereas if registered in an EU member state, the VAT of company headquarters' country is applied. In the past four years, major U.S. electronic service (e-commerce) providers have chosen Luxembourg as their European base of operations, including Amazon.com, Apple i-Tunes, Digital River, and PayPal (eBay).

However, following a challenge by some member states of the EU directive and intense negotiations, on December 5th, 2007 the EcoFin (committee of finance ministers of the EU) decided to extend the current directive for VAT on electronic services but only through ¶2014. This allows for a continued favorable investment situation for U.S. e-commerce companies to establish their European headquarters in Luxembourg and benefit from the lowest VAT rate of 15%. However, starting in 2015, the proposed change to the directive will be implemented to divide VAT revenue between the country of supply and the country of consumption of the service, at a progressively decreasing share for the country of supply - thereby decreasing the incentive to locate point of supply in Luxembourg specifically for the VAT rate. Despite the loss of this decision factor, Luxembourg's attractiveness as a headquarters location will continue to be driven by a favorable fiscal climate (moderate consolidated corporate tax rate equivalent to the EU average of around 29%, no capital gains tax, no tax on dividend income...), a rapidly-developing technological infrastructure (led by the government initiative "LuxConnect" to enhance bandwidth availability and connectivity), a well-educated and multilingual workforce and a high quality of life as measured yearly by the Mercer Consulting worldwide survey. Together this enables Luxembourg to present itself as a "center of excellence" for IT and e-commerce companies, as well as the innovative and growing internet service sector (domain name management, etc).

¶2. Logistics

Since the closing of the USG WSA (Warehouse Services Agency) facility, the Luxembourg government has been developing the site as a logistics hub to house international companies performing logistics operations. The site offers efficient access to cargo railways and highways connecting through Europe and diverse investment opportunities.

¶3. "Eco-Technologies"

The Ministry of Economy has launched a broad "eco-technologies" initiative to attract new companies and support technology projects and activities which are ecologically-friendly. This initiative is in line with the country's environmentally-conscious culture and policies (high rate of recycling; emissions-controls; subsidy programs for "green" building and energy conservation), as well as with the new EU directive to reduce overall CO_2 emissions by 20% in the Union by the year 2020.

U.S. firms are among the most prominent foreign investors in Luxembourg, producing tires (Goodyear), chemicals (DuPont), glass (Guardian Industries) and a wide range of industrial equipment.

The major laws affecting incoming foreign investment through acquisitions, mergers, takeovers, and "greenfield" (starting from nothing) investments are based on the Luxembourg company laws, which are regularly updated.

The Luxembourg judicial system upholds sanctity of contracts. There is no overall economic or industrial strategy that has discriminatory effects on foreign-owned investors. There are no limits on foreign ownership or control, only general screening of foreign investment; screening mechanisms are routine and non-discriminatory.

Luxembourg generally boasts a liberal investment regime. There are no officially "closed" sectors; however, a few industries, primarily utilities, are still dominated by majority state-owned companies, such as electric power (Cegedel) - although this sector is rapidly opening up, telecommunications (P&T), and cable television (one provider per region such as Coditel for the capital city area and Eltrona for the Moselle region).

That said, there are no major sectors/matters in Luxembourg in which foreign investors are denied national treatment (equivalent to domestic firms).

Foreign investors are allowed to participate equally in ongoing privatization programs, and the bidding process is transparent with no barriers erected against foreign investors at the time of the initial investment or after the investment is made. Moreover, there are no laws or regulations specifically authorizing private firms to adopt articles of incorporation or association which limit or prohibit foreign investment, participation, or control, and there are no other practices by private firms to restrict foreign investment, participation in, or control of domestic enterprises.

As one of the most competitive countries in the world with favorable economic conditions, the government's proactive policies in attracting FDI contribute to consistent investment growth and continuing positive projections for future investment, despite the current global economic crisis. Many international firms find it convenient to locate European headquarters or holding companies in Luxembourg as a result of the country's openness to foreign cultures and excellent balance between the high quality of life and high purchasing power. Approximately 60 percent of Luxembourg residents and over 60 percent of the workforce are composed of foreigners (non-Luxembourgers), mainly from EU countries (Portugal; Italy; France; Germany; Belgium).

¶B. Conversion and Transfer Policies

There are no restrictions on converting or transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, lease payments) into a freely usable currency and at a legal market-clearing rate. There have also not been any recent changes to remittance policies with respect to access to foreign exchange for investment remittances. There is no difficulty in obtaining foreign exchange.

The average delay period currently in effect for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal, legal channels is quite brief, approximately 24 hours. Investors can remit through a legal parallel market including one utilizing cash and convertible negotiable instruments (such as dollar- denominated host government bonds issued in lieu of immediate payments in dollars). There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs.

¶C. Expropriation and Compensation

The laws governing expropriation of property are quite complex, and the process can be arduous and lengthy, depending on the building. The Ministry of the Interior, along with the Ministry of Justice, set forth the specific regulations according to each type of case. There have been no known expropriatory actions in the recent past or policy shifts which would lead to believe there may be expropriatory actions in the near future, and there appear to be no tendencies of the host government to discriminate against U.S. investments, companies or representatives in expropriation. There are also no sectors (e.g., mining, banking, telecommunications, large land

holdings, etc.) that are more at risk for expropriatory or similar actions, and no laws that force local ownership.

Instances of "creeping expropriation" or governmental action tantamount to expropriation, such as confiscatory tax regimes, that might warrant special investigation (particularly by OPIC prior to offering coverage), have not been found.

¶D. Dispute Settlement

There are arbitration possibilities available for domestic dispute settlements with the Luxembourg Chamber of Commerce and, on an international level with the International Chamber of Commerce. There have been no known investment disputes over the past few years involving U.S. or other foreign investors or contractors in Luxembourg.

The country's legal system is based on the Napoleonic Code. Luxembourg has assimilated the laws of neighboring countries according to the nature of the laws: German tax law, French civil law, and Belgian commercial law (written and consistently applied). Judgments of foreign courts are accepted and enforced by the local courts, and Luxembourg does have a written and consistently applied bankruptcy law, which is based, like other European countries, on EU-wide legislation. Monetary judgments are usually made in local currency.

The government accepts binding international arbitration of investment disputes between foreign investors and the state, and the courts recognize and enforce foreign arbitral awards. International arbitration is accepted as a means for settling investment disputes between private parties, and there is indeed a domestic arbitration body within the host economy.

¶E. Performance Requirements and Incentives

Luxembourg maintains measures that are consistent with WTO trade related investment measures (TRIMs) requirements, and in general the country adheres to WTO regulations in conformity with internal EU market directives. Performance requirements and incentives are applied uniformly and systematically to both domestic and foreign investors.

Luxembourg is considered to be a very attractive tax location for doing business: low effective corporate tax rates (now 21%); the lowest VAT (value-added tax) rates in Europe at 3 percent, 6 percent, and 15 percent, according to the good or service purchased; limited and recently lowered personal tax burden for high-income individuals (among the lowest individual rates in the EU with a maximum of 38.9 percent); and a variety of tax incentives (investment tax credits, new business tax credit, audiovisual certificates for film productions, venture capital investment certificates, small business incentives, regional and national incentives, research and development incentives, environmental incentives).

Luxembourg is one of the world's largest financial centers, with USD 2.2 trillion Luxembourg-domiciled investment fund assets, second only to the United States of America. These funds are generally exempt from corporate income tax, municipal business tax, and withholding tax on dividends and are only subject to the subscription and capital taxes. For nearly two generations, Luxembourg has been one of the world's leading financial centers. Banks, securities depositaries, insurance and reinsurance companies, as well as other financial service companies, may benefit from preferential regulations when establishing their taxable basis for corporate income tax.

Several other available incentives are not given in the context of taxation but rather as general business or financial incentives, such as: loans at reduced interest rates; government guarantees on loans; real estate development assistance in certain industrial sites and buildings; cash grants (for high-technology investments, reorganizations of economically justified sectors, research and development of innovative products, services or manufacturing processes); and financial incentives for audiovisual productions

using production facilities and locations in Luxembourg.

Performance requirements are imposed on a case-by-case basis, for example with respect to employment, as a condition for establishing, maintaining or expanding the investment, or for access to tax and investment incentives. There is no requirement that investors purchase from local sources or export a certain percentage of output, however, or only have access to foreign exchange in relation to their exports. In the case of foreign investments, there is no requirement that nationals own shares, that the share of foreign equity be reduced over time, or that technology be transferred on certain terms. The government does not impose "offset" requirements, whereby major procurements are approved only if the foreign supplier invests in manufacturing, R&D, or service facilities related to the items being procured.

The government uses incentives to favor investment in certain locations and specific geographic areas, for example, abandoned or vacant industrial sites as in Esch-sur-Alzette, where a new concert hall facility was erected, and the Esch/Belval high-tech zone is being developed, as said previously. These incentives are dependent on the size of the operation and nature of the investment. There are no enforcement procedures for performance requirements; U.S. and other foreign firms are able to participate in government-financed and/or subsidized research and development programs on a national treatment basis, and there are fair procedures to follow for the application and obtention of visa, residence, or work permits. Similarly there are few barriers to foreign investors' mobility and also no discriminatory or preferential export policies or import policies affecting foreign investors.

¶F. Right to Private Ownership and Establishment

According to common laws, there is a right of foreign and domestic private entities to establish and own business enterprises and engage in all forms of remunerative activity in Luxembourg. There is also a right of private entities to freely establish, acquire, and dispose of interests in business enterprises. In fact, competitive equality is the standard applied to private enterprises in competition with public ones with respect to access to markets, credit, and other business operations, such as licenses and supplies.

¶G. Protection of Property Rights

Secured interests in property in Luxembourg, both movable and real, are recognized and enforced through intellectual property laws and community laws. The legal system that protects and facilitates acquisition and disposition of all property rights, such as land and buildings is based on a "land register" called "cadastre" in French, where each parcel of property is documented in terms of ownership and duration. There is adherence to key international agreements on intellectual property rights, as well as adequate protection for: intellectual property, patents, copyrights, trademarks, and trade secrets.

Adequate steps have also been taken to implement and enforce the WTO TRIPS agreement (Trade-Related aspects of Intellectual Property Rights). The regulation stipulating the measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods states that the authority competent to receive applications must be a customs authority. In Luxembourg, this is the Litigation and Research Department (Division des Contentieux et Recherches) of the

Directorate of Customs and Excise (Direction des Douanes et Accises). The merits of a case are decided by judicial proceedings, so the ordinary law courts are responsible for deciding whether there are grounds for a case. A number of provisions within the agreement deal with different intellectual property rights and allow for the possibility of confiscating, or even destroying, counterfeit goods and the tools or implements used for their production. The Luxembourg customs authorities may impose measures for a period of six months, which may be renewed at the request of the right-holder.

The main rules of civil procedure are contained in the Luxembourg

Code of Civil Procedure and in the Administration of Justice Act. In the absence of specific rules concerning material and local jurisdiction for certain intellectual property rights, ordinary law applies.

¶H. Transparency of Regulatory System

The Government of Luxembourg (GOL) uses transparent policies and effective laws to foster competition and establish "clear rules of the game". The legal system is quite welcoming with respect to FDI. Tax, labor, environment, health and safety, and other laws and policies in no way distort or impede investment. Bureaucratic procedures, including those for licenses and permits, are sufficiently streamlined and transparent, and there is far less "red tape" than in larger European countries. There are no informal regulatory processes managed by nongovernmental organizations or private sector associations; all procedures are managed by government entities. Proposed laws and regulations are published in draft form for public comment. In addition, the legal, regulatory, and accounting systems are transparent and consistent with international norms. There are no private sector and/or government efforts to restrict foreign participation in industry standards-setting consortia or organizations.

¶I. Efficient Capital Markets and Portfolio Investment

Luxembourg government policies facilitate the free flow of financial resources to support the product and factor markets. Credit is allocated on market terms, and foreign investors are easily able to get credit on the local market, thanks to the sophisticated and extremely developed international financial sector. The private sector has access to a variety of credit instruments, and there is an effective regulatory system established to encourage and facilitate portfolio investment. The only area with certain restrictions concerns the financing of small and medium- size businesses, however somewhat less than in neighboring European countries.

Luxembourg's banking system is sound and strong. As of September 2008, a total of 154 banks (stable vs. year-ago) were operating, with total assets of EUR 915 billion (USD 1.26 trillion, a slight decrease of -5.3% vs. year-ago) and approximately 27,269 employees. Note: most current figures available which do not reflect impact of fourth quarter 2008 financial crisis; as of press time, an increase in layoffs by the banking sector has contributed to rising unemployment. There are no "cross- shareholding" and "stable shareholder" arrangements used by private firms to restrict foreign investment through mergers and acquisitions. Also, measures to prevent hostile takeovers by foreign investors do not exist, since the situation is largely non-applicable.

¶J. Political Violence

Luxembourg has consistently ranked among the overall safest or lowest risk countries and most politically stable in the world. There have been no recent incidents involving politically motivated damage to projects or installations and the environment is not growing increasingly politicized such that civil disturbances would be likely. There are no known nascent insurrections, belligerent neighbors or other politically motivated activities.

According to World Markets Research Centre of London, Luxembourg is rated highly as one of the "least risky places to do business" in the world. The risk ratings were noted all "insignificant" for the following reasons: political risk (existence of institutional permanence, internal and external political consensus); economic risk (existence of forward planning, a diverse and resilient economy); legal risk (existence of innovative legislation, transparency, independence and experience); tax risk (coherent and fair taxation system, low "effective" corporate and personal income tax rates below EU average); and operational risk (supportive attitudes toward foreign investment, high quality of infrastructure, existence of "social peace" with Tripartite system of negotiation process involving labor, employers and government, low bureaucracy and corruption).

¶K. Corruption

The Grand-Duchy of Luxembourg has laws, regulations, and penalties to combat corruption effectively and they are enforced impartially with no disproportionate attention to foreign investors or any other group. The country ranks very favorably on the World Bank's corruption index (very low) and Luxembourg placed #11 (one rank higher than year-ago) in Transparency International's 2008 Corruption Perception Index. In particular, Luxembourg has made anti-money laundering and suppression of terrorism financing a priority, given its status as a leading world financial center. The government has taken the lead in freezing bank accounts suspected to be connected to terrorist networks, and in November '04 extended the law against money-laundering and terrorist financing to additional professional groups (including auditors, accountants, attorneys, and notaries).

Regulations are enforced by the strong but flexible Financial Sector Surveillance Commission (CSSF, which is equivalent to the U.S. Securities and Exchange Commission). U.S. firms have not identified corruption as an obstacle to FDI in Luxembourg. There are no areas or sectors where corruption is pervasive, whether in government procurement, transfers, performance requirements, dispute settlement, regulatory system, or taxation. Giving or accepting a bribe is a criminal act subject to the penal code. Senior government officials take anti-corruption efforts seriously. International, regional or local nongovernmental "watchdog" organizations do not operate in the country, given the lack of need.

According to industry advisors, a local company cannot deduct a bribe to a foreign official from taxes.

¶L. Bilateral Investment Agreements

Luxembourg has a bilateral taxation as well as an aviation treaty with the United States, and there are no taxation issues of concern to U.S. investors.

Other countries with which Luxembourg has bilateral agreements are:

Austria
Bahrain (aviation)
Barbados (aviation)
Belgium
Brazil
Bulgaria
Canada
Chile (aviation)
China
Costa Rica (aviation)
Croatia (aviation)
Cyprus (aviation)
Czech Republic
Denmark
Finland
France
Gabon (aviation)
Gambia (aviation)
Germany
Greece
Hong Kong (aviation)
Hungary
Iceland
India (aviation)
Indonesia
Iraq (aviation)
Ireland
Israel (aviation)
Italy
Japan
Jordan (aviation)
Kenya (aviation)
Kuwait (aviation)
Lebanon (aviation)
Macau (aviation)

Malaysia
Malta
Mauritius
Mexico
Mongolia
Morocco
Nepal (aviation)
The Netherlands
New Zealand (aviation)
Norway
Philippines (aviation)
Poland
Portugal
Romania
Russia
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Syria (aviation)
Thailand
Togo (aviation)
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Kingdom
Uzbekistan
Vietnam

¶M. OPIC and Other Investment Insurance Programs
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Luxembourg is a member of the Multilateral Investment Guarantee Agency (MIGA).

¶N. Labor

Luxembourg boasts a very stable, diverse, multilingual and qualified labor market, benefiting from the approximately 144,000 (average first half 2008) readily available cross-border commuter workers (both industrial and service employees) who come to work in Luxembourg on a daily basis from the neighboring countries of Belgium, France and Germany. Foreign (non-Luxembourger) workers are treated the same as nationals.

Foreign investors often cite Luxembourg's labor relations as a primary reason for locating in the Grand- Duchy. Unemployment in Luxembourg was on the rise at 4.7% at the end of 2008, due to the impact of the global economic downturn and increased layoffs by international corporations; however, the projected average unemployment rate for year 2008, at 4.1%, remains one of the lowest in the EU, and labor relations have been peaceful since the 1930's. Most industrial workers are organized by unions, linked to one of the major political parties; Luxembourg is proud of the system of representatives of business, unions and government participating in a "tripartite" process in the conduct of major labor negotiations, which serve to avoid strikes, common in the neighboring countries of France and Germany.

¶O. Foreign-Trade Zones/Free Ports

There are no foreign trade zones, free trade zones, or free ports in Luxembourg.

¶P. Foreign Direct Investment Statistics

Together with the United Kingdom (UK) and France, Luxembourg is among the main actors in FDI flows external to the 27 EU member states. In 2006 (latest available figures for FDI in terms of stocks), EU stock FDI in Luxembourg amounted to USD 54.4 billion,

with the neighboring countries Germany, Belgium and France providing 70% of the total. With regard to extra-EU, Luxembourg was the main EU holder of FDI, with stocks of USD 9.1 billion (of which 60% U.S. origin). The predominant role of Luxembourg in EU FDI is mainly explained by the importance of its financial intermediation activity. Luxembourg is the main recipient of investments from other EU Member States.

For the latest available period (third quarter 2008), total Luxembourg FDI outflows worldwide amounted to USD 1.42 trillion, and inflows into Luxembourg from the rest of the world were 1.48 trillion (both of which comprised of 75% of a financial/holding company nature). Luxembourg's outflows to the USA were USD 1.05 trillion, whereas inflows from the USA to Luxembourg were threefold at USD 3.82 trillion (financially-driven).

FDI include data on capital invested in or by holding companies (while the legal structure will change in 2011 as a result of the revision of the "1929 Holding" law, FDI is not expected to be strongly affected at this point). This type of company accounts for a high proportion of the FDI inflows and outflows of Luxembourg. Although a precise quantification is not possible, it is reasonable to suppose that a large part of extra-EU FDI inflows going to Luxembourg are reinvested by holding companies elsewhere in the EU, and that a large part of extra-EU outflows are channeled through Luxembourg from other EU member states. Additional FDI data can be found through Eurostat's "NewCronos" database.

Investments from extra-EU countries were mostly made in one economic sector but some other sectors also stood out. Financial intermediation was the first sector in terms of volume (56 %) in world total inward FDI flows, a slight increase over year-ago. Luxembourg was again the top destination for extra-EU investments placed in financial intermediation.

Conversion rate used: EUR .72 (year-end 2008)

WAGNER